

§ 217.155

the adjusted carrying value of an equity exposure to an investment fund on a pro rata basis to different risk weight categories assigned according to subpart D of this part based on the investment limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments. The risk-weighted asset amount for the Board-regulated institution's equity exposure to the investment fund equals the sum of each portion of the adjusted carrying value assigned to an exposure class multiplied by the applicable risk weight. If the sum of the investment limits for all exposure types within the fund exceeds 100 percent, the Board-regulated institution must assume that the fund invests to the maximum extent permitted under its investment limits in the exposure type with the highest risk weight under subpart D of this part, and continues to make investments in order of the exposure type with the next highest risk weight under subpart D of this part until the maximum total investment level is reached. If more than one exposure type applies to an exposure, the Board-regulated institution must use the highest applicable risk weight. A Board-regulated institution may exclude derivative contracts held by the fund that are used for hedging rather than for speculative purposes and do not constitute a material portion of the fund's exposures.

§ 217.155 Equity derivative contracts.

(a) Under the IMA, in addition to holding risk-based capital against an equity derivative contract under this part, a Board-regulated institution must hold risk-based capital against the counterparty credit risk in the equity derivative contract by also treating the equity derivative contract as a wholesale exposure and computing a supplemental risk-weighted asset amount for the contract under § 217.132.

(b) Under the SRWA, a Board-regulated institution may choose not to hold risk-based capital against the counterparty credit risk of equity derivative contracts, as long as it does so for all such contracts. Where the equity derivative contracts are subject to a qualified master netting agreement, a Board-regulated institution using the

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SRWA must either include all or exclude all of the contracts from any measure used to determine counterparty credit risk exposure.

§§ 217.166–217.160 [Reserved]

RISK-WEIGHTED ASSETS FOR OPERATIONAL RISK

§ 217.161 Qualification requirements for incorporation of operational risk mitigants.

(a) *Qualification to use operational risk mitigants.* A Board-regulated institution may adjust its estimate of operational risk exposure to reflect qualifying operational risk mitigants if:

(1) The Board-regulated institution's operational risk quantification system is able to generate an estimate of the Board-regulated institution's operational risk exposure (which does not incorporate qualifying operational risk mitigants) and an estimate of the Board-regulated institution's operational risk exposure adjusted to incorporate qualifying operational risk mitigants; and

(2) The Board-regulated institution's methodology for incorporating the effects of insurance, if the Board-regulated institution uses insurance as an operational risk mitigant, captures through appropriate discounts to the amount of risk mitigation:

(i) The residual term of the policy, where less than one year;

(ii) The cancellation terms of the policy, where less than one year;

(iii) The policy's timeliness of payment;

(iv) The uncertainty of payment by the provider of the policy; and

(v) Mismatches in coverage between the policy and the hedged operational loss event.

(b) *Qualifying operational risk mitigants.* Qualifying operational risk mitigants are:

(1) Insurance that:

(i) Is provided by an unaffiliated company that the Board-regulated institution deems to have strong capacity to meet its claims payment obligations and the obligor rating category to which the Board-regulated institution assigns the company is assigned a PD equal to or less than 10 basis points;